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THE WORLD BANK
International Bank
for Reconstruction and Development



March 12, 2008

Your ref # 66-20/35 from February 14, 2008

Mr. Bohdan Danylyshyn
Minister of Economy
Ministry of Economy of Ukraine

Міністерство економіки України	
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Dear Mr. Minister:

Thank you for your letter of 14 February 2008. We are pleased with the positive response to the joint statement by the Cabinet of Ministers and the prospects for an inter-ministerial Working Group responsible to the Cabinet of Ministers. We (the donors) look forward to working with the GOU to prepare a Strategic Heat Sector Action Plan addressing the following priority areas, as presented in the Prospectus:

- Strengthening the legal, regulatory, and institutional framework to improve heat service to customers.
- Reducing losses and improving efficiency in the production, delivery, and use of heat.
- Increasing the capacity of municipalities to plan and manage the development of the heat systems in their areas.
- Mobilizing financing and investment to modernize systems and improve energy efficiency.
- Improving the social protection system and ensuring adequate support to this problem.

Our respective organizations are prepared to provide technical assistance and the cumulative experience of our best practices to the GOU to develop and to implement a national strategy for municipal heating reform to achieve concrete progress in these five areas. A recent coordination meeting among the donors re-affirmed these priorities and our readiness to support the new Ukrainian Government's commitment to reform in this sector.

As highlighted in documents prepared by the Ukrainian Government and the Prospectus, successful reforms and results are dependent on: 1) support for reforms at the highest level of the Government of Ukraine, through the creation of an inter-ministerial and cross-sectoral task force; 2) a deliberate and consistent approach toward full-cost recovery tariffs (that take into account the social assistance privileges provided to citizens) to ensure the viability of the heating sector; 3) the establishment of an independent regulator to ensure long term sustainability of the heating sector, and 4) Greater fiscal autonomy and credit worthiness of municipalities.

We envision a task force chaired by a Deputy Prime Minister and consisting of Deputy Ministers from the Ministries of Housing and Communal Services, Finance, Fuel and Energy, Economy, and

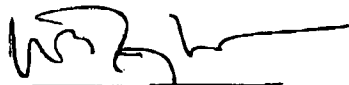
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Labor and Social Policy. Representatives from the municipal, non-governmental sector, and private sector will add important views. Representatives from our respective organizations will also be pleased to participate. USAID is ready to provide on behalf of the donors an international expert as early as mid-March to work with designated Ministries to develop specific plans for this collaboration. We suggest that this expert would assist with such matters as:

- Establishing the Approach to Donor-GOU Working Group Collaboration, including documents regulating the functioning Working Group such as terms of reference, charter, etc. (or review and amend the existing ones); schedule; meeting agendas; working procedures; public outreach and information strategies
- Recommending methods to be used by the Working Group Task Force for obtaining input from non-GOU stakeholders such as leading mayors, heat enterprises, energy efficiency experts and companies, and citizen groups including recommendations on methods, forms and strategies to be used by the Task Force to inform Ukrainian citizens about its work and reform progress.
- Recommending arrangements for necessary secretariat support and technical inputs from lower-level technical groups, governmental and non-governmental agencies, and other entities.
- Coordinating preparation of draft Strategic Action Plan for GOU implementation.

We will follow-up shortly with you on a schedule for this work to begin. We welcome your reactions and suggestions.

Sincerely,



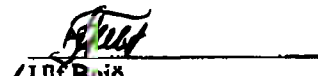
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